

Political Ties and Capital Raising in Global Markets: Evidence from Yankee Bonds

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Workshop on finance and politics
Bank of Finland
August 18, 2020

Motivation

POLITICS

White House Seeks Crackdown on U.S.-Listed Chinese Firms

Proposal would have companies lose their listings if they don't comply with U.S. auditing requirement



The Trump administration plan would require rule-making by the Securities and Exchange Commission, which ultimately oversees the auditing standards of companies whose shares are traded in the U.S.

PHOTO: ANDREW HARNIK/ASSOCIATED PRESS

By [Dave Michaels](#)

Updated Aug. 6, 2020 8:06 pm ET

WASHINGTON—Chinese companies with shares traded on U.S. stock exchanges would be forced to give up their listings unless they comply with U.S. audit requirements under a plan recommended Thursday by the Trump administration.

White House objects to \$1bn World Bank loan programme for China

US's economic rivalry with Beijing spills over into multilateral institutions



Steven Mnuchin, US Treasury secretary, may be on a collision course with David Malpass, president of the World Bank, who was the Trump administration's pick to lead the bank © Getty

James Politi in Washington DECEMBER 5 2019

72

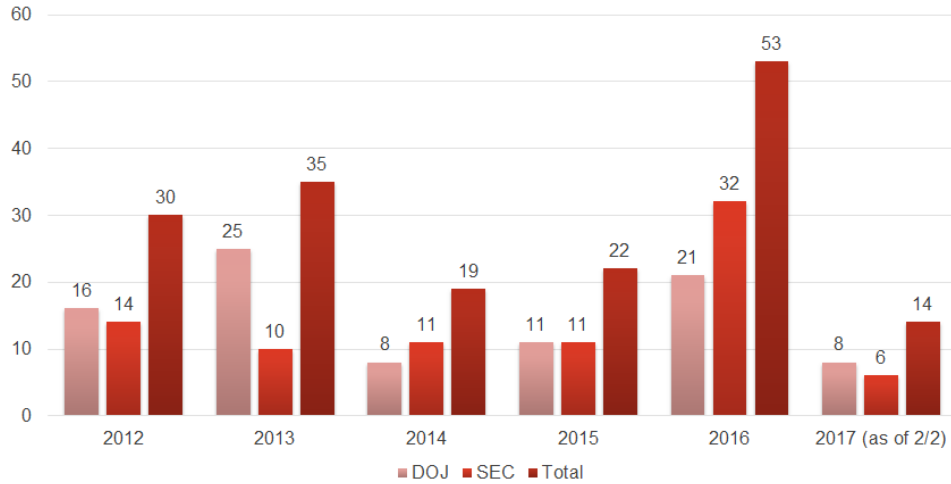
The Trump administration has refused to support a World Bank loan programme for China worth more than \$1bn per year, the latest sign of how the economic rivalry between Washington and Beijing has spilled over into multilateral institutions.

Steven Mnuchin, the US Treasury secretary, said that Washington had “objected” to the financial support for China through its representative on the World Bank’s board, where the five-year funding plan was discussed on Thursday.

Motivation

- *Moody's Fitch withdraw ratings of Rusal after US sanctions* - Financial Times, April 11, 2018
- *U.S. Sanctions Threaten to Push Up Borrowing Costs for Russian Companies* - Wall Street Journal, April 15, 2018
- *Bonds of Russia's VEB Slump as U.S. Sanctions Threat Takes Hold* - Bloomberg, Aug. 21, 2018
- *Washington's Sanctions Push Sinks Russian Bonds* - Wall Street Journal, Sept. 13, 2018
- *20% interest rates, crashing capital markets: Trump's sanctions causing turmoil in Turkey* - CNBC News, Aug. 8, 2018
- *Turkish lira slides again on pastor row and bank downgrades* - Financial Times, Aug. 29, 2018
- *Trump bans purchase of Venezuelan debt in new sanctions* - Financial Times, May 21, 2018
- *Hope Fades in Iran as U.S. Sanctions Bite* - Bloomberg, March 5, 2018

FCPA Enforcement Actions Per Year (2012-2017)



Company Name	Country	Amount	Year
1. Siemens	Germany	\$1.6 billion	2008
2. Rolls-Royce	UK	\$800 million	2017
3. Alstom	France	\$779 million	2014
4. KBR/Halliburton	USA	\$579 million	2009
5. Teva Pharma	Israel	\$519 million	2016
6. Odebrechet et al	Brazil	\$418 million	2016
7. Och-Ziff	USA	\$413 million	2016
8. BAE	UK	\$400 million	2010
9. Total S.A.	France	\$398 million	2013
10. VimpelCom	Netherlands	\$397 million	2016
11. Alcoa	USA	\$397 million	2014
12. Snamprogetti	Italy	\$397 million	2010
13. Technip S.A.	France	\$397 million	2010
14. JGC Corporation	Japan	\$397 million	2011
15. Daimler AG	Germany	\$397 million	2010
16. Weatherford Intl.	USA	\$397 million	2013

Top 10 Total Penalties =
\$6.3 billion

Recent Cases



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Webcasts

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SEC Charges Germany-Based Allianz SE with FCPA Violations

**FOR IMMEDIATE RELEASE
2012-266**

Washington, D.C., Dec. 17, 2012 — The Securities and Exchange Commission today charged Germany-based insurance and asset management company Allianz SE with violating the books and records and internal controls provisions of the Foreign Corrupt Practices Act (FCPA) for improper payments to government officials in Indonesia during a seven-year period.

The SEC's investigation uncovered 295 insurance contracts on large government projects that were obtained or retained by improper payments of \$650,626 by Allianz's subsidiary in Indonesia to employees of state-owned entities. Allianz made more than \$5.3 million in profits as a result of the improper payments.

Allianz, which is headquartered in Munich, agreed to pay more than \$12.3 million to settle the SEC's charges.

"Allianz's subsidiary created an 'off-the-books' account that served as a slush fund for bribe payments to foreign officials to win insurance contracts worth several million dollars," said Kara Brockmeyer, Chief of the SEC Enforcement Division's FCPA Unit.

According to the SEC's order instituting settled administrative proceedings against Allianz, the misconduct occurred from 2001 to 2008 while the company's shares and bonds were registered with the SEC and traded on the New York Stock Exchange. Two complaints brought the misconduct to Allianz's attention. The first complaint submitted in 2005 reported unsupported payments to agents, and a subsequent audit of accounting records at Allianz's subsidiary in Indonesia uncovered that managers were using "special purpose accounts" to make illegal payments to government officials in order to secure business in Indonesia. The misconduct continued in spite of that audit.



Related Materials

- SEC Order

**UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION**

**SECURITIES EXCHANGE ACT OF 1934
Release No. 68448 / December 17, 2012**

**ADMINISTRATIVE PROCEEDING
File No. 3-15132**

In the Matter of

ALLIANZ SE,

Respondent.

ORDER INSTITUTING CEASE-AND-DESIST PROCEEDINGS PURSUANT TO SECTION 21C OF THE SECURITIES EXCHANGE ACT OF 1934, MAKING FINDINGS, AND IMPOSING A CEASE-AND-DESIST ORDER AND CIVIL PENALTY

I.

The Securities and Exchange Commission ("Commission") deems it appropriate that cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 21C of the Securities Exchange Act of 1934 ("Exchange Act"), against Allianz SE ("Allianz" or "Respondent").

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the "Offer") which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission's jurisdiction over the Respondent and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Cease-and-Desist Proceedings Pursuant to Section 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing a Cease-and-Desist Order And Civil Penalty ("Order"), as set forth below.

<https://www.sec.gov/news/press-release/2012-2012-266htm>

This paper

- **Question:** How political ties with the US affect capital raising in global markets
- Souring political ties with the US has strong implications for foreign economies and ultimately their firms with important implications for firm financing.
 - State-to-state political ties with the US
 - adds a "put" value hedge against country risk, and
 - added (informal) layer of investor protection.
- How do we measure the strength of state-to-state political ties?
 - **Go small and frequent:** UN voting similarities and US Aid flows
- How do we disentangle effects of political ties from changing domestic financial conditions?
 - Common market with homogenous investor base: use cross-border issuances, particularly in the US, of foreign firms - the Yankee Bond market
 - A defining feature of the Yankee Bond market
 - Foreign issuers are required to register with the SEC

Preview of results

- Closer political ties with the US lead to *lower* borrowing costs, *higher* issuance amount and *longer* maturity for firms in the Yankee bond market.
 - One std. dev. improvement in political ties with the US, results in a 5-14 percent reduction in at-issue *bond spreads*, a 50.4 percent increase in *issuance amount*, and a 29.3 percent increase in *maturity*
- Robustness
 - Heterogenous effect
 - One std. dev. Increase in political ties with the US leads to a 29 percent reduction in spreads for firms in industries that are closely tied to their domestic governments
 - Instrumental variable
 - White house visits
 - peak troop deployment in 2003 Iraq War

Preview of results

- Two channels: ***Sovereign risk hedge*** and ***investor protection***
 - Closer ties with the US help reduce bond spreads most significantly through a sovereign risk hedge channel when sovereign risk is characterized by limited policy options of domestic government due to **high debt levels** but are nevertheless **unlikely to default on existing sovereign debt (higher sovereign rating)**.
 - Closer ties with the US may potentially reduce the regulatory coordination costs and provide another layer of investor protection.
 - Shock to the SEC enforcement: ***Morrison v. Australia National Bank (2010)***
 - After *Morrison*, ties with the US is more important in pricing of Yankee bonds
 - Such effect is stronger for issuances by firms in countries that had historically experienced more FCPA enforcement actions

Related literature

- Political ties with US as a novel "non-fundamental" determinant of foreign firm borrowing costs
 - Importance of democracy (Delis et al., 2019. JFE), creditor protection (Djankov et al., JFE 2007; Miller and Puthenpurackal, JFI 2002; Miller and Reisel, RFS 2012; Qi et al., JIBS 2011), regulation (Houston et al., JF 2012); and cultural distance (Giannetti and Yafeh, MS 2012)
- Complements literature on domestic political connections of firms (Acemoglu et al., JFE 2016; Banerji et al., JCF 2018; Boubakri et al., JCF 2012; Butler et al., RFS 2009; Claessens et al., JFE 2008; Fisman, AER 2001; Faccio, AER 2006; Goldman et al., RFS 2009; Houston et al., JAR 2014)
 - Foreign political connections and MNC entry (Solji and Tham, JIBS 2017), MFI funding costs (Garmaise and Natividad, JF 2013), and cross-border M&As (John et al., 2016)

Outline of the rest of the talk

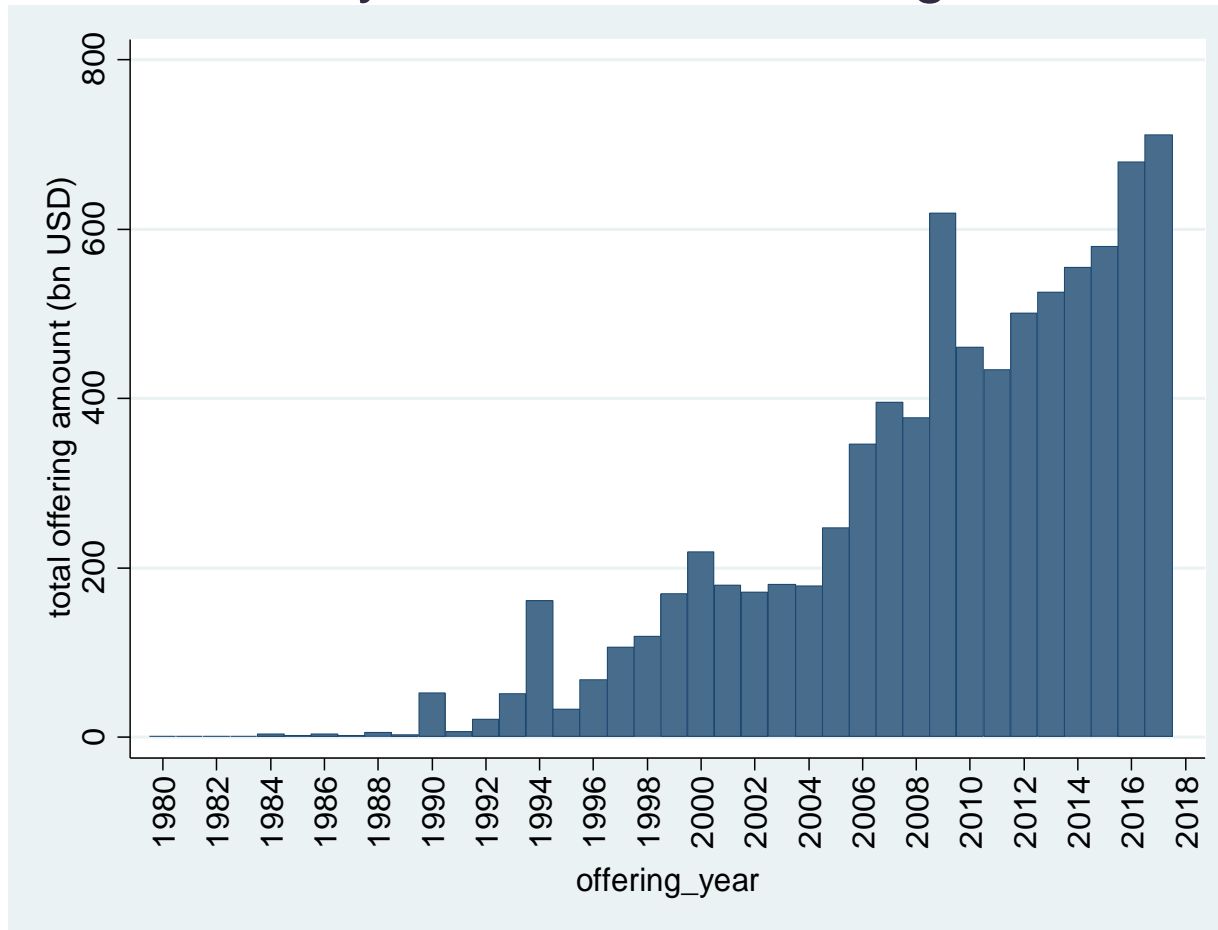
- Overview of the Yankee bond market
- Data and Methodology
- Main Results
 - Baseline results
 - Robustness
 - Effect on non-pricing terms
- Channels
 - Sov. Risk Hedge
 - Investor Protection
 - SEC enforcement
 - Shock: Ruling change (*Morrison v. National Australia Bank*)
- Conclusions

Yankee bond market

- One of the largest markets for non-US firms to raise US corporate debt in the public market
 - Issuers regulated by the SEC and US legal system
 - Securities Act of 1933 and Securities Exchange Act of 1934
 - Registered with the SEC
 - Reporting firms in the US: initial/periodic financial reporting
 - A US local syndicate as an underwriter
 - US dollar-denominated
- Pros/cons
 - Access to broader pool of investors, transparency and certification effects, and more homogenous issuances
 - More rigorous regulation (*enforcement risk*) and currency risk
- Comparison: Rule 144A bonds, Eurodollar bond market

The rise of Yankee bond market

Issuance by non-financial foreign firms



Data

■ Our sample

- 2,293 Yankee bonds issued by 449 firms from 46 developed/developing countries
- 1992-2015

■ Data sources

- Mergent FISD
- Compustat Capital IQ
- *Voting*: United Nations General Assembly (UNGA)
- *Aid*: US Agency for International Aid (USAID) Greenbook
- *White house visits*: US State Department
- *Official peak troop contribution to Iraq invasion*: US Congressional Report
- Creditor rights, Political constraints, Civil/Democracy
- Government debt, sovereign rating

Variables

Variable	Definitions	Source
<i>Political Tie variables</i>		
Voting_a	Values for the affinity data ranges from -1 (least similar interests) to 1 (most similar interests). Dyadic affinity score using 2 category vote data (1="yes" or approval for an issue; 2="no" or disapproval for an issue).	UN Voting database
Voting_b	Values for the affinity data ranges from -1 (least similar interests) to 1 (most similar interests), using 3 category vote data (1="yes" or approval for an issue; 2= abstain, 3="no" or disapproval for an issue).	UN Voting database
Laid econ	Log of total economic aid obligations given by the US to a country in constant 2014 USD	USAID
Laid all	Log of total economic and military aid obligations given by the US to a country in constant 2014 USD	USAID
PCecon_va	The 2 nd principal component of <i>Voting_a</i> and <i>Laid econ</i>	Own calculations
PCecon_vb	The 2 nd principal component of <i>Voting_b</i> and <i>Laid econ</i>	
PCall_va	The 2 nd principal component of <i>Voting_a</i> and <i>Laid all</i>	
PCall_vb	The 2 nd principal component of <i>Voting_b</i> and <i>Laid all</i>	
WH visit	Number of official heads of state visits to the White House for each country and year.	US State Department
Iraq	Peak troop contributions to the Iraq War from 2003-2007 in 10,000 troops.	US Congressional Report
Laid econ_dev	Deviation from the aid prediction model based on Alesina and Dollar (2000) using <i>Laid econ</i> , where the aid variable is regressed on the five-year moving average of GDP per capita, its square, a measure for trade openness, indices for civil and political liberties, the log number of years a state was a colony (zero for never), and dummy variables for Israel and Egypt.	Own calculations
Laid all_dev	Deviation from the aid prediction model based on Alesina and Dollar (Journal of Economic Growth, 2000) using <i>Laid econ</i> , where the aid variable is regressed on the five year moving average of GDP income per capita, its square, a measure for trade openness, indices for civil and political liberties, the log number of years a state was a colony (zero for never), and dummy variables for Israel and Egypt.	

Summary Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
<i>Country characteristics</i>					
Voting_a	2,293	0.000	0.378	-0.903	0.951
Voting_b	2,293	0.030	0.307	-0.727	0.738
Laid econ	2,217	13.361	3.435	5.198	21.190
Laid all	2,286	13.552	3.439	5.198	22.374
Laid econ_dev	2,217	-0.960	2.301	-7.419	4.751
Laid all_dev	2,286	-0.648	2.066	-6.717	5.360
PCecon_va	2,217	-0.272	1.051	-3.184	3.885
PCecon_vb	2,217	-0.272	1.048	-3.168	3.654
PCall_va	2,286	-0.258	1.052	-3.205	4.194
PCall_vb	2,286	-0.259	1.046	-3.189	3.961
<i>Bond characteristics</i>					
Bond yield spread (%)	2,293	5.680	5.098	0.267	18.688
Rating score	2,063	16.084	3.846	3.000	22.000
Covenants	2,284	0.182	0.386	0.000	1.000
Log offamt	2,293	10.459	3.194	0.000	15.895
Maturity	2,293	6.047	7.924	0.216	100.110

Sample distribution/statistics

Country	# of Obs.	Mean of <i>Voting_a</i>	Mean of <i>Voting_b</i>	Mean of <i>Laid econ</i>	Mean of <i>Laid all</i>
Argentina	50	-0.23	-0.15	14.70	16.01
Australia	176	0.29	0.23	11.15	12.35
....				
China	62	-0.63	-0.48	18.04	18.07
France	156	0.20	0.19	13.56	13.18
Greece	6	-0.04	0.01	12.92	14.67
....				
Mexico	152	-0.47	-0.37	18.70	19.09
....				
Norway	272	-0.26	-0.17	7.45	7.46
....				
Turkey	28	-0.11	-0.04	17.42	17.64
....				
United Kingdom	834	0.32	0.29	12.87	13.00

Baseline results: political ties and bond spreads

- One std. dev. increase in political ties with the US associated with **lower** borrowing cost (yield spreads): 5-14%; **larger** issuance amount: 50%; **longer** maturity: 29%

Dep. Var	At-issue bond yield spread					
	(1)	(2)	(3)	(4)	(5)	(6)
Voting_a	-1.632** (0.777)					
Voting_b		-2.720*** (0.988)				
Laid econ			-0.183*** (0.0499)			
Laid all				-0.0941** (0.0450)		
Laid econ_dev					-0.181*** (0.0501)	
Laid all_dev						-0.0876* (0.0450)
Creditor rights	-1.078** (0.453)	-0.997** (0.456)	-1.469*** (0.487)	-1.164** (0.460)	-1.433*** (0.484)	-1.122** (0.459)
Log offamt	-0.731*** (0.0608)	-0.731*** (0.0608)	-0.726*** (0.0619)	-0.729*** (0.0606)	-0.726*** (0.0618)	-0.729*** (0.0606)
Rating score	-0.261*** (0.0315)	-0.263*** (0.0315)	-0.252*** (0.0333)	-0.261*** (0.0320)	-0.252*** (0.0333)	-0.261*** (0.0320)
Maturity	-0.0276** (0.0120)	-0.0277** (0.0120)	-0.0263* (0.0136)	-0.0269** (0.0120)	-0.0264* (0.0136)	-0.0270** (0.0120)
Ct/Ind/Year FE	Y	Y	Y	Y	Y	Y
Other controls	Y	Y	Y	Y	Y	Y
# of observations	1,599	1,599	1,533	1,592	1,533	1,592
adj. R-sq.	0.683	0.683	0.677	0.682	0.677	0.682

Baseline results: political ties and bond spreads

- $PCecon_va$, $PCecon_vb$ are the common component of $Voting_a$ and $Laid\ econ$, $Voting_b$ and $Laid\ econ$, respectively;
- $PCall_va$, $PCall_vb$ are the common component of $Voting_a$ and $Laid\ all$, $Voting_b$ and $Laid\ all$, respectively.

Dep. Var	At-issue bond yield spread			
	(1)	(2)	(3)	(4)
PCecon_va	-0.659*** (0.161)			
PCecon_vb		-0.745*** (0.166)		
PCall_va			-0.372** (0.146)	
PCall_vb				-0.427*** (0.149)
Creditor rights	-1.439*** (0.488)	-1.407*** (0.485)	-1.119** (0.456)	-1.088** (0.458)
Log offamt	-0.724*** (0.0620)	-0.723*** (0.0619)	-0.728*** (0.0606)	-0.727*** (0.0606)
Rating score	-0.250*** (0.0330)	-0.251*** (0.0330)	-0.260*** (0.0318)	-0.261*** (0.0318)
Maturity	-0.0263* (0.0136)	-0.0259* (0.0135)	-0.0269** (0.0120)	-0.0268** (0.0119)
Ct/Ind/Year FE	Y	Y	Y	Y
Other controls	Y	Y	Y	Y
# of observations	1,533	1,533	1,592	1,592
adj. R ²	0.678	0.678	0.683	0.683

Effects on Bond Yield Spreads

- *Stronger* political tie with the US, *lower* yield spreads
 - One std. dev. increase in political ties with the US associated with
 - lower borrowing cost (yield spreads): 5-14%
 - larger issuance amount: 50%
 - longer maturity: 29%

- Results robust to
 - Inclusion of additional domestic institutional factors such as civil liberties, democracy, and political constraints
 - Clustering by country groups
 - Exclusion of 08's Global Financial Crisis
 - Sample without UK

Robustness: sample without UK

- 36 percent of issuers in our whole sample are from the UK
- Main results still hold without UK firms

Dep. Var	At-issue bond yield spread			
	(1)	(2)	(3)	(4)
PCecon_va	-0.296* (0.173)			
PCecon_vb		-0.364** (0.178)		
PCall_va			-0.290* (0.154)	
PCall_vb				-0.337** (0.158)
Creditor rights	-1.535*** (0.422)	-1.510*** (0.422)	-1.293*** (0.388)	-1.265*** (0.391)
Log offamt	-0.812*** (0.0981)	-0.812*** (0.0981)	-0.798*** (0.0953)	-0.797*** (0.0952)
Rating score	-0.308*** (0.0369)	-0.309*** (0.0369)	-0.307*** (0.0364)	-0.308*** (0.0364)
Maturity	-0.00105 (0.0128)	-0.000913 (0.0128)	-0.00193 (0.0109)	-0.00192 (0.0108)
Ct/Ind/Year FE	Y	Y	Y	Y
Other controls	Y	Y	Y	Y
# of observations	1123	1123	1151	1151
adj. R-sq	0.779	0.779	0.781	0.781

Effects on Non-pricing Terms

- *Stronger* political tie with the US, *larger* offering amount and *longer* maturity for each issue
 - One std. dev improvement in political tie with the US is associated with
 - 50.4 percent increase in offering amount
 - 29.3 percent increase in maturity

Dep. Var	Log offamt				Maturity			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
PCecon_va	0.480*** (0.142)				1.688*** (0.503)			
PCecon_vb		0.482*** (0.145)				1.792*** (0.511)		
PCall_va			0.363*** (0.119)				1.025** (0.513)	
PCall_vb				0.365*** (0.120)				1.032* (0.531)
Creditor rights	-0.421 (0.485)	-0.432 (0.485)	-0.306 (0.507)	-0.325 (0.505)	1.199 (4.545)	1.138 (4.547)	-0.276 (3.981)	-0.330 (3.980)
Rating score	-0.0464 (0.0316)	-0.0453 (0.0317)	-0.0388 (0.0300)	-0.0376 (0.0301)	0.415*** (0.128)	0.418*** (0.128)	0.432*** (0.128)	0.435*** (0.128)
Ct, Ind, Year FE	Y	Y	Y	Y	Y	Y	Y	Y
Other control	Y	Y	Y	Y	Y	Y	Y	Y
# of observations	1,533	1,533	1,592	1,592	1,533	1,533	1,592	1,592
adj. R-sq.	0.617	0.617	0.613	0.613	0.340	0.340	0.310	0.310

Robustness: effects across industries

- Introducing country-time FE, to isolate any potentially omitted country-time variables;
- Ind_gov* is defined as one for utilities and government agencies.
- One std. dev. increase in political ties with the US reduces the yield spreads by approximately 29.3 percent more for firms in govt-dependent industries than for others.

Dep. Var	At-issue bond yield spread			
	(1)	(2)	(3)	(4)
Ind_gov*PCall_va	-1.203*** (0.32)			
Ind_gov*PCecon_va		-1.230*** (0.33)		
Ind_gov*PCall_vb			-1.232*** (0.32)	
Ind_gov*PCecon_vb				-1.263*** (0.34)
Ind_gov	0.027 (0.48)	0.036 (0.49)	0.020 (0.48)	0.032 (0.49)
Rating score	-0.325*** (0.04)	-0.317*** (0.04)	-0.325*** (0.04)	-0.317*** (0.04)
Log offamt	-0.610*** (0.07)	-0.614*** (0.07)	-0.610*** (0.07)	-0.614*** (0.07)
Maturity	-0.020 (0.01)	-0.022 (0.02)	-0.020 (0.01)	-0.022 (0.02)
Country-Year FE	Y	Y	Y	Y
Industry FE	N	N	N	N
Other controls	Y	Y	Y	Y
# of observations	1592	1533	1592	1533
adj. R-sq	0.682	0.676	0.682	0.676

Instrumental variables

- Instruments: 1) White House visits; 2) peak troop deployment contributions in the Iraq War, by other countries
- measure the degree of (both actual and symbolic) cooperation between countries and the United States

Dep. Var	At-issue bond yield spread							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	1st stage	IV est.	1st stage	IV est.	1st stage	IV est.	1st stage	IV est.
PCall_va		-2.260*** (0.29)				-2.031*** (0.29)		
PCecon_va				-2.621*** (0.37)				-2.072*** (0.34)
WH visit	0.377*** (0.03)		0.324*** (0.03)		0.347*** (0.04)		0.271*** (0.04)	
Iraq					0.074*** (0.03)		0.109*** (0.03)	
Creditor rights	0.024* (0.01)	0.118* (0.07)	-0.012 (0.01)	0.017 (0.07)	-0.054* (0.03)	0.088 (0.07)	-0.138*** (0.03)	-0.031 (0.07)
Rating score	-0.037*** (0.01)	-0.290*** (0.03)	-0.038*** (0.01)	-0.303*** (0.03)	-0.047*** (0.01)	-0.282*** (0.03)	-0.052*** (0.01)	-0.283*** (0.04)
Log offamt	0.017** (0.01)	-0.813*** (0.05)	0.020*** (0.01)	-0.799*** (0.06)	0.042*** (0.01)	-0.836*** (0.06)	0.044*** (0.01)	-0.842*** (0.06)
Maturity	0.000 (0.00)	-0.027** (0.01)	0.001 (0.00)	-0.027* (0.01)	0.005** (0.00)	-0.026 (0.02)	0.004 (0.00)	-0.036 (0.03)
Income Group FE	Y	Y	Y	Y	Y	Y	Y	Y
Year FE	Y	Y	Y	Y	Y	Y	Y	Y
Instrument	WH visit		WH visit		WH and Iraq		WH and Iraq	
Cragg-Donald F		362.926		290.003		135.572		112.126
Kleibergen-Paap F		226.154		164.125		74.733		54.770
# of observations	1592	1592	1533	1533	1244	1244	1187	1187
adj. R-sq		0.437		0.423		0.475		0.475

Channels

- Sovereign risk hedge
 - Effect should be stronger for bond issuance in countries where sovereign risk is high
 - Sovereign credit ratings

- Investor protection
 - Effect should be stronger when other forms of investor protections are weak
 - SEC's routine monitoring and enforcement of foreign issuers: *Fisch and Gu (2020)*
 - Ruling change as a shock- *Morrison v. National Australia Bank (2010)*
 - Weaker role for private litigation and stronger role for SEC oversight
 - Quality of domestic institutional creditor rights protection
 - Presence of security-level (covenants) protection

High vs. Low government debt

- Political ties may be interpreted as an additional implicit hedge against home-country risk of Yankee bond issuing firms
- One std. dev increase in political ties can reduce bond spreads by 39.1 percent

Dep. Var	At-issue bond yield spread			
	<i>High debt</i>	<i>Low debt</i>	<i>High debt</i>	<i>Low debt</i>
	(1)	(2)	(3)	(4)
PCecon_va	-2.220*** (0.782)	0.174 (0.186)		
PCecon_vb			-2.191*** (0.764)	0.164 (0.184)
Creditor rights	-38.30*** (12.23)	-0.790 (0.577)	-38.72*** (12.10)	-0.785 (0.576)
Log offamt	-0.331*** (0.117)	-0.0200 (0.0443)	-0.332*** (0.117)	-0.0199 (0.0444)
Rating score	-0.258** (0.109)	-0.376*** (0.0283)	-0.260** (0.109)	-0.375*** (0.0283)
Maturity	-0.203*** (0.0440)	0.00125 (0.00886)	-0.203*** (0.0440)	0.00130 (0.00886)
Chi-sq		9.67***		9.79***
(P-value)		(0.0019)		(0.0018)
Country FE	Y	Y	Y	Y
Year FE	Y	Y	Y	Y
Industry FE	N	N	N	N
# of observations	385	389	385	389
adj. R-sq	0.379	0.735	0.379	0.734

High vs. Low sovereign rating

- Over 50 percent of the issuers are domiciled in countries with a sovereign rating of AAA.
- Stronger ties with the US more effective in reducing bond spreads for borrowers based in countries with **good sovereign credit ratings**.

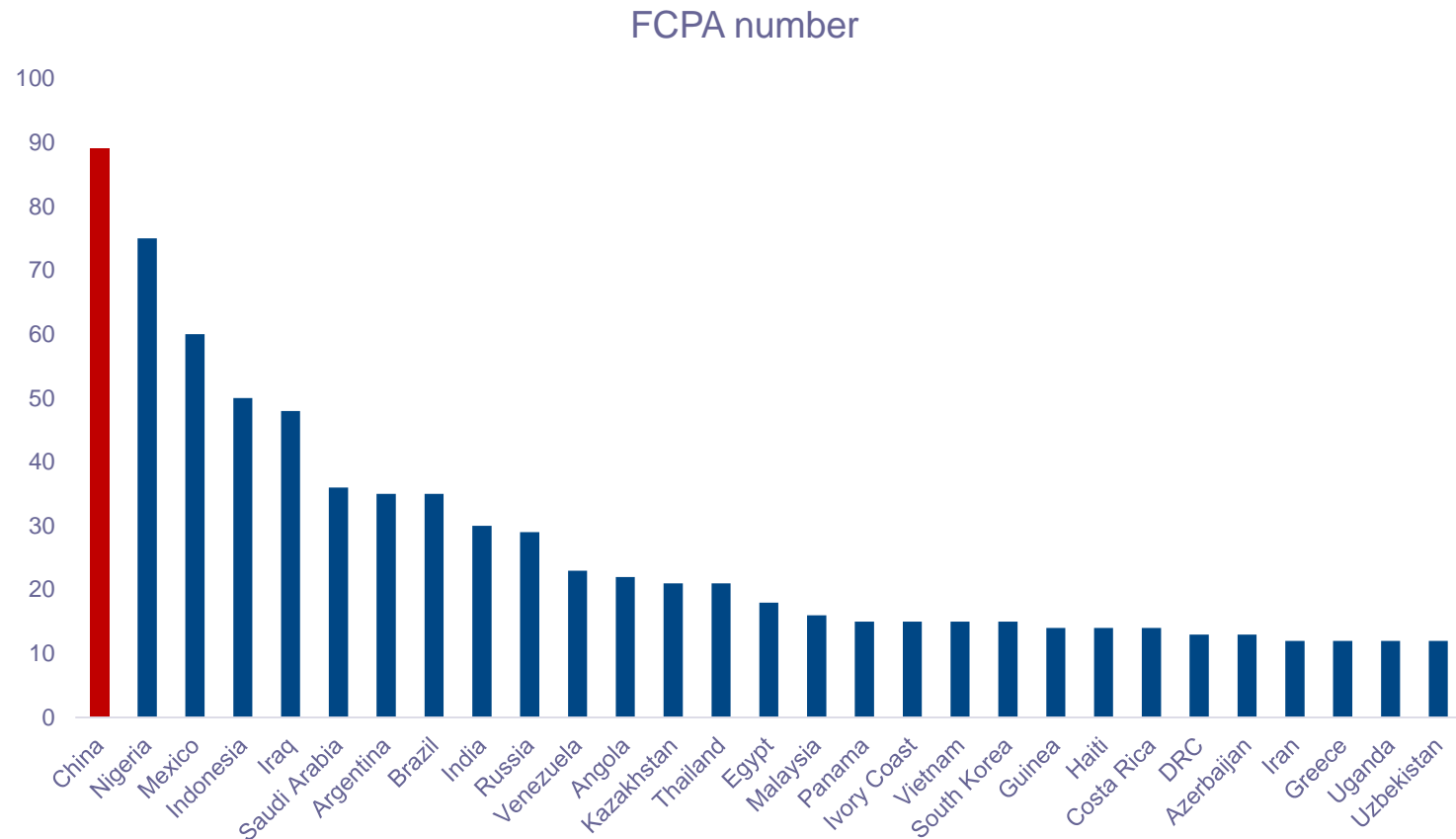
Dep. Var	At-issue bond yield spread					
	S&P ratings			Fitch ratings		
	(1)	(2)	(3)	(4)	(5)	(6)
	<i>Full sample</i>	AAA	Non-AAA	<i>Full sample</i>	AAA	Non-AAA
PCecon_va	-0.543*** (0.132)	-1.198*** (0.306)	0.342** (0.150)	-0.562*** (0.137)	-1.126*** (0.298)	-0.0380 (0.181)
Rating spread	-0.118*** (0.0274)	-0.261*** (0.0630)	-0.242*** (0.0282)	-0.136*** (0.0267)	-0.207*** (0.0690)	-0.202*** (0.0314)
Covenants	-0.713*** (0.170)	-0.315 (0.302)	-0.340** (0.158)	-0.749*** (0.172)	0.247 (0.438)	-0.652*** (0.190)
Creditor rights	-0.0939 (0.0688)	-0.0844 (0.114)	0.0712 (0.101)	-0.0832 (0.0688)	-0.0871 (0.119)	-0.0691 (0.0915)
Log affamt	-0.825*** (0.0564)	-0.697*** (0.0675)	-0.345*** (0.115)	-0.816*** (0.0566)	-0.885*** (0.0737)	-0.562*** (0.0874)
Maturity	-0.0440*** (0.0146)	-0.0983*** (0.0195)	0.00334 (0.0119)	-0.0488*** (0.0167)	-0.0318* (0.0174)	-0.0351* (0.0179)
Chi-sq (PCecon_va) (P-value)			21.87*** (0.0000)			10.42*** (0.0012)
Chi-sq (Covenants) (P-value)			0.04 (0.8480)			3.75* (0.0529)
Country FE	N	N	N	N	N	N
Ind/Year FE	Y	Y	Y	Y	Y	Y
Other controls	Y	Y	Y	Y	Y	Y
# of observations	1,524	896	628	1,493	615	878
adj. R-sq	0.642	0.674	0.470	0.643	0.758	0.377

Investor protection: SEC enforcement

- SEC enforcement of foreign issuers
 - Fisch and Gu (2020)
- Is SEC captured? – SEC enforcement and political connections
 - SEC enforcement
 - Budget is limited (Correia, 2014; Heese, 2019; Velikonja, 2016)
 - Politically captured in both domestic and international environment
 - Legal bonding theory
 - Cross-border enforcement coordination
 - For foreign issuers, the probability of public actions is associated with cross-border enforcement cooperation as more jurisdictions are joining the 2002 Multilateral Memorandum of Understanding (Guseva, 2018)
 - Regulatory coordination cost
- Closer ties with the US **enhance** investor protection

FCPA enforcement actions

- Foreign Corruption Practice Act (FCPA) action number as a measure for enforcement risk



*FCPA actions by SEC and DOJ:1978-2017

Shock: *Morrison v. National Australia Bank* (2010)

- *Morrison v. National Australia Bank, Ltd*
 - United States Supreme Court; -561 U.S. 247, 130S.Ct. 2869 (2010)
 - Unanimous decision: majority opinion by Justice *Antonin Scalia*
 - **Rule of law:** *Section 10(b)* and *Rule 10b-5* of the Securities Exchange Act of 1934 does **NOT** provide a cause of action for misconduct relating to securities traded extraterritorially on foreign exchanges

SUPREME COURT OF THE UNITED STATES

Syllabus

MORRISON ET AL. *v.* NATIONAL AUSTRALIA BANK LTD. ET AL.

CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

No. 08–1191. Argued March 29, 2010—Decided June 24, 2010

In 1998, respondent National Australia Bank (National), a foreign bank whose “ordinary shares” are not traded on any exchange in this country, purchased respondent HomeSide Lending, a company headquartered in Florida that was in the business of servicing mortgages—seeing to collection of the monthly payments, etc. In 2001, National had to write down the value of HomeSide’s assets, causing National’s share prices to fall. Petitioners, Australians who purchased National’s shares before the write-downs, sued respondents—National, HomeSide, and officers of both companies—in Federal District Court for violation of §§10(b) and 20(a) of the Securities and Exchange Act of 1934 and SEC Rule 10b–5. They claimed that HomeSide and its officers had manipulated financial models to make the company’s mortgage-servicing rights appear more valuable than they really were; and that National and its chief executive officer were aware of this deception. Respondents moved to dismiss for lack of subject-matter jurisdiction under Federal Rule of Civil Procedure 12(b)(1) and for failure to state a claim under Rule 12(b)(6). The District Court granted the former motion, finding no jurisdiction because the domestic acts were, at most, a link in a securities fraud that concluded abroad. The Second Circuit affirmed.

<https://www.supremecourt.gov/opinions/09pdf/08-1191.pdf>

Shock: *Morrison v. National Australia Bank* (2010)

- A shock to SEC enforcement for foreign issuers
 - Law review articles: e.g. Bartlett, Cain, Fisch, Solomon (2018)
 - *the myths of Morrison*
 - “The ruling in *Morrison*, described as a “steamroller”, substantially pared back the ability of private litigants to bring lawsuits against foreign companies for fraud”
 - “... imply a more doctrinal point that the US as matter of international norms and laws should not be exercising jurisdiction on foreign matters *without Congressional intent*”
 - SEC enforcement and private litigation complement each other
 - Correia and Klausner (2018); Choi and Pritchard (2016)
- **Application to Yankee bond issuers**
 - Yankee bond issuers are reporting companies in the US, subject to the 1934 Act
 - Following *Morrison*, there was a case in the Southern District of New York, *SEC v. Toure* (2014), about a collateralized debt obligation, and the issuers marketed it without disclosing certain material information to investors.

Shock: Morrison (2010)

- After Morrison, the bond spreads are lower significantly
- Such effect is even stronger for foreign firms located in countries with stronger ties with the US
- After Morrison, one std. dev increase in *PCecon_va* reduces the spreads for additional 7.6 percent

Dep. Var.	At-issue bond yield spread							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	<i>Full sample</i>	<i>Full sample</i>	<i>Low FCPA</i>	<i>High FCPA</i>	<i>Full sample</i>	<i>Full sample</i>	<i>Low FCPA</i>	<i>High FCPA</i>
PCecon_va	-0.669*** (0.14)	-0.513*** (0.17)	-0.391** (0.18)	0.070 (0.40)				
Post Morrison	-0.738*** (0.19)	-0.782*** (0.19)	-0.937*** (0.22)	-0.680* (0.36)	-0.729*** (0.19)	-0.777*** (0.19)	-0.940*** (0.22)	-0.689* (0.37)
PCecon_va*Post Morrison		-0.410* (0.24)	-0.520** (0.25)	-1.003** (0.46)				
PCecon_vb					-0.703*** (0.14)	-0.549*** (0.17)	-0.411** (0.18)	-0.005 (0.42)
PCecon_vb*Post Morrison						-0.410* (0.24)	-0.527** (0.24)	-0.983** (0.48)
Log offamt	-0.684*** (0.05)	-0.690*** (0.05)	-0.709*** (0.05)	-0.163** (0.08)	-0.685*** (0.05)	-0.691*** (0.05)	-0.710*** (0.05)	-0.164** (0.08)
Rating score	-0.234*** (0.03)	-0.231*** (0.03)	-0.227*** (0.04)	-0.405*** (0.05)	-0.237*** (0.03)	-0.233*** (0.03)	-0.229*** (0.04)	-0.405*** (0.05)
Maturity	-0.040*** (0.01)	-0.039*** (0.01)	-0.035** (0.02)	0.005 (0.01)	-0.039*** (0.01)	-0.039*** (0.01)	-0.035** (0.02)	0.005 (0.01)
Country FE	Y	Y	Y	Y	Y	Y	Y	Y
Year FE	N	N	N	N	N	N	N	N
Industry FE	Y	Y	Y	Y	Y	Y	Y	Y
# of observations	1628	1628	1312	316	1628	1628	1312	316
adj. R-sq	0.662	0.662	0.679	0.512	0.662	0.663	0.679	0.512

Shock: *Morrison (2010)*

- The effect of *Morrison* is stronger for bond issuance by firms located in countries that have higher enforcement risk
- *Enforcement risk*: Historical FCPA enforcement actions (by SEC or DOJ)

Dep. Var.	At-issue bond yield spread							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	<i>Full sample</i>	<i>Full sample</i>	<i>Low FCPA</i>	<i>High FCPA</i>	<i>Full sample</i>	<i>Full sample</i>	<i>Low FCPA</i>	<i>High FCPA</i>
PCecon_va	-0.669*** (0.14)	-0.513*** (0.17)	-0.391** (0.18)	0.070 (0.40)				
Post Morrison	-0.738*** (0.19)	-0.782*** (0.19)	-0.937*** (0.22)	-0.680* (0.36)	-0.729*** (0.19)	-0.777*** (0.19)	-0.940*** (0.22)	-0.689* (0.37)
<i>PCecon_va*Post Morrison</i>		-0.410* (0.24)	<i>-0.520**</i> <i>(0.25)</i>	<i>-1.003**</i> <i>(0.46)</i>				
PCecon_vb					-0.703*** (0.14)	-0.549*** (0.17)	-0.411** (0.18)	-0.005 (0.42)
<i>PCecon_vb*Post Morrison</i>						-0.410* (0.24)	<i>-0.527**</i> <i>(0.24)</i>	<i>-0.983**</i> <i>(0.48)</i>
Log offamt	-0.684*** (0.05)	-0.690*** (0.05)	-0.709*** (0.05)	-0.163** (0.08)	-0.685*** (0.05)	-0.691*** (0.05)	-0.710*** (0.05)	-0.164** (0.08)
Rating score	-0.234*** (0.03)	-0.231*** (0.03)	-0.227*** (0.04)	-0.405*** (0.05)	-0.237*** (0.03)	-0.233*** (0.03)	-0.229*** (0.04)	-0.405*** (0.05)
Maturity	-0.040*** (0.01)	-0.039*** (0.01)	-0.035** (0.02)	0.005 (0.01)	-0.039*** (0.01)	-0.039*** (0.01)	-0.035** (0.02)	0.005 (0.01)
Country FE	Y	Y	Y	Y	Y	Y	Y	Y
Year FE	N	N	N	N	N	N	N	N
Industry FE	Y	Y	Y	Y	Y	Y	Y	Y
# of observations	1628	1628	1312	316	1628	1628	1312	316
adj. R-sq	0.662	0.662	0.679	0.512	0.662	0.663	0.679	0.512

Investor protection

- The ties with the US is slightly **more effective** in reducing borrowing costs for countries with **stronger legal institutions**
- Ties with the US **complements** security level protection (covenants) in countries with **stronger legal institutions**

Dep. Var	At-issue bond yield spread					
	(1)	(2)	(3)	(4)	(5)	(6)
	<i>Full sample</i>	<i>High CR</i>	<i>Low CR</i>	<i>Full sample</i>	<i>High CR</i>	<i>Low CR</i>
PCecon_va	-0.979*** (0.152)	-0.674** (0.334)	-0.701*** (0.224)			
Covenants	-0.321* (0.164)	-0.865*** (0.295)	-0.0349 (0.212)	-0.311* (0.165)	-0.849*** (0.293)	-0.00904 (0.214)
PCecon_va*Covenants	0.744*** (0.191)	-0.448* (0.269)	1.016*** (0.270)			
PCecon_vb				-1.046*** (0.153)	-0.697** (0.342)	-0.811*** (0.227)
PCecon_vb *Covenants				0.724*** (0.194)	-0.442* (0.266)	1.010*** (0.274)
Log offamt	-0.643*** (0.0521)	-0.407*** (0.0855)	-0.856*** (0.113)	-0.644*** (0.0522)	-0.408*** (0.0854)	-0.858*** (0.113)
Rating score	-0.263*** (0.0322)	-0.287*** (0.0594)	-0.308*** (0.0456)	-0.265*** (0.0321)	-0.288*** (0.0595)	-0.307*** (0.0455)
Maturity	-0.0289** (0.0137)	-0.0934*** (0.0190)	-0.00207 (0.0156)	-0.0285** (0.0137)	-0.0937*** (0.0190)	-0.00178 (0.0155)
Chi-sq (P-value)			16.84*** (0.0000)			16.58*** (0.0000)
Country FE	Y	Y	Y	Y	Y	Y
Year FE	Y	Y	Y	Y	Y	Y
Industry FE	Y	Y	Y	Y	Y	Y
# of observations	1,628	633	900	1,628	633	900
adj. R-sq	0.682	0.469	0.766	0.683	0.469	0.766

Rule 144A bonds

- Political ties with the US has **no significant** effect on bond spreads for Rule 144a private placement bonds
- Rule 144a issuer: safe harbor- **NOT** registered with the SEC

Dep. Var.	At-issue bond yield spread							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Voting_a	0.800 (0.717)							
Voting_b		0.973 (0.889)						
Laid econ			0.0720 (0.0478)					
Laid all				0.0741* (0.0443)				
PCecon_va					0.238 (0.153)			
PCecon_vb						0.241 (0.155)		
PCall_va							0.263* (0.141)	
PCall_vb								0.263* (0.143)
Creditor rights	0.362 (0.707)	0.365 (0.707)	0.322 (0.746)	0.540 (0.722)	0.306 (0.746)	0.308 (0.746)	0.515 (0.720)	0.516 (0.720)
Log offamt	-0.150** (0.0739)	-0.150** (0.0741)	-0.166** (0.0841)	-0.145* (0.0749)	-0.164* (0.0838)	-0.164* (0.0840)	-0.143* (0.0744)	-0.143* (0.0746)
Rating score	-0.447*** (0.0235)	-0.446*** (0.0235)	-0.450*** (0.0243)	-0.449*** (0.0237)	-0.451*** (0.0243)	-0.450*** (0.0243)	-0.451*** (0.0237)	-0.450*** (0.0237)
Maturity	0.0297** (0.0151)	0.0298** (0.0151)	0.0297* (0.0157)	0.0285* (0.0151)	0.0301* (0.0159)	0.0301* (0.0159)	0.0288* (0.0154)	0.0288* (0.0153)
Ct/Ind/Year FE	Y	Y	Y	Y	Y	Y	Y	Y
Other control	Y	Y	Y	Y	Y	Y	Y	Y
# of observations	721	721	690	716	690	690	716	716
adj. R-sq	0.708	0.708	0.701	0.710	0.701	0.701	0.710	0.710

Channel: Investor protection

- Political ties have *stronger* effects
 - When the SEC enforcement became *more* important relative to private litigation
 - In *low creditor rights* protection countries when issuance has *no covenants*
 - In *high creditor rights* countries when issuance *has covenants*
- Results suggest political ties serve as an additional layer of investor protection potentially complementing other forms - covenants and institutional creditor rights protection

Conclusion

- Country-level political ties are important in international fund-raising
 - Corporate bond issuances by foreign firms in the Yankee Bond market
- We find that stronger political ties with the US reduce borrowing costs, increase bond issuance and lengthen maturities.
 - One std. dev improvement in such ties can lead to a 5-14 percent reduction in at-issue yield spreads.
 - The association is more pronounced for firms located in highly indebted countries and in government related industries
- We find evidence in support of both a sovereign risk hedge and investor protection channels

Political Ties and Capital Raising in Global Markets: Evidence from Yankee Bonds

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The views and opinions expressed in this paper are those of the authors and do not necessarily represent those of the Bank of Finland

Controlling for other domestic institutional factors

Dep. Var	At-issue bond yield spread							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
PCecon_va	-0.759*** (0.165)	-0.731*** (0.167)	-0.633*** (0.162)	-0.667*** (0.161)				
PCecon_vb					-0.861*** (0.169)	-0.836*** (0.171)	-0.719*** (0.167)	-0.750*** (0.165)
Political constraints_a	0.772 (0.565)				0.795 (0.564)			
Political constraints_b		-0.302 (0.610)				-0.219 (0.608)		
Civil			-0.387* (0.202)				-0.359* (0.201)	
Democracy				-0.512*** (0.179)				-0.504*** (0.178)
Creditor rights	-1.915*** (0.582)	-1.730*** (0.613)	-1.729*** (0.475)	-1.800*** (0.471)	-1.899*** (0.580)	-1.741*** (0.611)	-1.677*** (0.474)	-1.763*** (0.466)
Log offamt	-0.723*** (0.0635)	-0.726*** (0.0634)	-0.724*** (0.0619)	-0.720*** (0.0620)	-0.721*** (0.0635)	-0.725*** (0.0633)	-0.723*** (0.0619)	-0.719*** (0.0620)
Rating score	-0.262*** (0.0348)	-0.257*** (0.0347)	-0.249*** (0.0330)	-0.245*** (0.0332)	-0.263*** (0.0348)	-0.258*** (0.0347)	-0.250*** (0.0329)	-0.246*** (0.0332)
Maturity	-0.0280** (0.0142)	-0.0275* (0.0140)	-0.0262* (0.0136)	-0.0267** (0.0135)	-0.0276* (0.0141)	-0.0271* (0.0140)	-0.0258* (0.0135)	-0.0263* (0.0135)
Ct/Ind/Year FE	Y	Y	Y	Y	Y	Y	Y	Y
Other controls	Y	Y	Y	Y	Y	Y	Y	Y
# of observations	1,451	1,451	1,533	1,533	1,451	1,451	1,533	1,533
adj. R-sq.	0.673	0.673	0.678	0.678	0.674	0.674	0.678	0.679

Std. Err. Clustered by Country

Dep. Var	At-issue bond yield spread			
	(1)	(2)	(3)	(4)
PCecon_va	-0.659*** (0.202)			
PCecon_vb		-0.745*** (0.215)		
PCall_va			-0.372* (0.185)	
PCall_vb				-0.427** (0.193)
Creditor rights	-1.439** (0.574)	-1.407** (0.574)	-1.119* (0.570)	-1.088* (0.578)
Log offamt	-0.724*** (0.125)	-0.723*** (0.125)	-0.728*** (0.121)	-0.727*** (0.121)
Rating score	-0.250*** (0.0516)	-0.251*** (0.0514)	-0.260*** (0.0489)	-0.261*** (0.0490)
Maturity	-0.0263 (0.0234)	-0.0259 (0.0233)	-0.0269 (0.0223)	-0.0268 (0.0222)
Ct/Ind/Year FE	Y	Y	Y	Y
Other controls	Y	Y	Y	Y
Std. Err. Cluster	Ct	Ct	Ct	Ct
# of observations	1,533	1,533	1,592	1,592
adj. R-sq	0.678	0.678	0.683	0.683